

OVERSIGHT



The Defense Contract Management Agency
remakes itself to catch up with customers
and changes in what the military is buying.

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OVERHAUL



Shortly after taking command of the Defense Contract Management Agency in late 2003, Air Force Maj. Gen. Darryl Scott met with senior staffers to learn the results of the agency's customer service surveys. They slid seven pages of handwritten notes on a legal pad across a conference table to their new boss and asked him if he recognized them. Scott shrugged his shoulders. He had no idea.

As it turned out, he was looking at the notes from a DCMA customer service interview with him in 2001 when he was Air Force deputy assistant secretary for contracting. Scott had delivered a tough assessment of DCMA, outlining numerous flaws and concluding that working with the agency was frustrating. "We were too internally focused. We cared more about our own process than we did in results and service," Scott says now.

He took aim at the problem almost immediately. Just months into the job, he

got word that an Air Force space program monitored by DCMA was \$1.5 billion over budget and two years behind schedule. "What are we doing? Is DCMA asleep at the switch?" Scott asked. No, DCMA analysts told him, they knew about the potential overruns, but never notified the Air Force because notification wasn't required under the agency's rigid operating manual, known as the *One Book*. Scott fired off an e-mail to all DCMA employees last March, titled "Bye-Bye, *One Book*—Hello, Perfor-

mance Management." He told employees that henceforth they would be judged on how well they met customer needs, not how well they followed strict policies in the book. "This is not about processes, waivers and deviations—it's about satisfying customer demands," Scott wrote. To underscore that point, he also announced that the *One Book* would be abolished in 90 days.

The Defense Contract Management Agency is a largely civilian, 11,500-person support organization that ensures that large Defense procurements—mainly of weapon systems—meet schedule, budget and performance requirements. The agency monitors contractors, tests products and advises program managers. Its quality assurance specialists work in contractors' factories to make sure that no



PERFORMANCE MANAGEMENT
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shortcuts are taken in manufacturing weapons. DCMA contract administrators help Defense program managers write and enforce highly technical contracts. The agency boasts that it keeps an eye on nearly 16,000 Defense contractors that hold 317,000 contracts worth about \$932 billion at hundreds of company facilities and government offices worldwide. DCMA supports about 60 percent of all Defense contracts. It also is paid by NASA to monitor some of its contracts.

To improve customer service, DCMA

leaders recently reorganized the agency to match product lines, instead of geography. The agency is hiring new workers and launching initiatives to improve services. But its workforce is shrinking, and contractors are reluctant to change. What's more, Defense contracts are evolving. Instead of weapons systems and equipment, services now are the bulk of Defense procurement, especially in war zones, and buying them requires a new set of contract management skills.

Tightening the Reins

For years, DCMA employees worked in 800 locations, mainly in the United States. Most worked at contractor facilities or in one of 47 field offices responsible for programs and contractors in their regions. Another 400 were permanently stationed overseas. All offices and employees east of the Mississippi River were managed by the agency's Eastern district headquarters in Boston, while those west of the Mississippi were managed by Western district headquarters in Carson, Calif. Those offices reported to agency

headquarters in Springfield, Va. DCMA only became an agency in 2001 after being a command within the Defense Logistics Agency for more than a decade.

Scott says the geographic alignment made sense when the command first was formed in the early 1990s. Then, weapon systems generally were built by a single contractor and managed by one program office in the same area. But as weapon systems have become more complex, they frequently involve dozens of contractors in many locations, sometimes reporting to

multiple Defense program offices. For example, 35 DCMA field offices support contractors building the Joint Strike Fighter, while 17 support contractors building the Army's Future Combat Systems. "Customers were having to talk to every single office. What they wanted was a single contact within DCMA," says Scott.

In April, the agency announced plans to eliminate its decentralized management structure next year and replace it with one that groups employees into five commodity sectors: aeronautical; space and missile systems; shipboard and electronic systems; ground combat and support systems; and systems sustainment. DCMA says the move will make it easier for customers to interact with it. Sallie Flavin, DCMA's deputy director, says the agency cannot assume program managers will come to it for contract support. They have the option of doing the work themselves or hiring private sector consultants. "If customers decide they want something else, part of that is shame on us because we are not providing what we could," she says. The commodity sectors will be managed out of the former regional offices in Boston and Carson, Calif., which will report to agency headquarters. No jobs will be lost, and few offices will move as a result of the realignment.

DCMA already has made significant workforce reductions. Since 1990, the staff has been cut by more than half, from more than 25,000 workers to about 12,000. Meanwhile, the value of Defense contracts has risen from \$752 billion in 1990 to \$980 billion today. Scott says no more personnel reductions are planned, and the restructuring will make it easier to centrally manage employees and move them to watch over high-risk weapons contracts. "We are a risk-based agency; we evaluate programs, and then we move resources around the agency to respond to that risk," Scott says.

DCMA's shift toward more centralized control also could mean more consistent contract management. The quality of the

agency's services has varied, depending on which field office was supporting a contract. "We all need to be playing from the same sheet of music," says Robert Murphy, DCMA's deputy executive for program and customer relations support, who has extensively polled agency customers about their satisfaction. On the other hand, John Douglass, president of the Aerospace Industries Association in Arlington, Va., says contractors are leery of the agency's realignment because the same DCMA employees will oversee multiple contractors. That could increase the chance that they might share one company's competitive information with others. Moreover, Douglass says, many companies have learned how to work within DCMA's decentralized structure and view that experience as a competitive advantage over other firms in winning military contracts.

Overseas Oversight

Army Lt. Col. Frank Steinbugl, deputy director for contract operations for DCMA's international district, recently spent 30 days in Iraq, where the Joint Contract Command needed help devising a strategy for managing thousands of service and supply contracts valued at about \$3.4 billion. Monitoring support contracts in Iraq has proved a huge challenge for the military, and now for DCMA, because local vendors have no experience with government acquisition rules.

"They don't understand our policies regarding integrity and fair and reasonable costs," Steinbugl says. "They just don't exist over there. Any business that is successful over there has managed to find their piece, take a cut and to hell with the rules." Record-keeping often is sparse, few companies in Iraq have access to the Internet, and slow-moving border crossings and checkpoints often delay deliveries for weeks, he says.

DCMA personnel stationed abroad also oversee traditional contracts and monitor the Pentagon's foreign military sales. But beginning with the fighting in the Balkans in the mid-1990s, DCMA has

been asked to provide additional personnel who can go into war zones temporarily to make sure vendors are providing adequate goods and services. Those monitors have seen more assignments as the military services have come to rely increasingly on companies to handle logistics. In 2003, the agency had about 40 military and civilian personnel deployed to global hot spots. By April 2005, that figure had more than doubled to 94, including 67 in Iraq, 11 in Kuwait and nine in Afghanistan. Next year, the number could reach 120. About 40 percent are civilians.

Last spring, DCMA launched an effort to hire 200 more civilians within a year. As a condition of employment, they had to agree to work overseas, mostly likely in Iraq, for up to six months within 90 days of being hired. Hazardous duty pay and higher grade levels in war zones can increase employees' earnings by as much as 50 percent. In the past, DCMA relied on staff volunteers to fill overseas jobs. Since the hiring effort began, the agency has employed about 50 additional workers for positions abroad. Hundreds of applicants failed physicals or backed out after learning they could be living in austere trailers at military bases where mortar attacks occur daily.

Connie Short, director of the combat support center, says DCMA is running short of qualified civilians willing to serve multiple tours in Iraq. Military service members already average two six-month overseas tours during their three-year assignments at DCMA. "Any time you go into a war zone, it's a hard sell," she says. Operations in Iraq have proved especially challenging for the agency, she says.

Predicting staff needs there is tough because the number of service contractors changes as troop levels fluctuate. The agency has begun assigning liaison officers to combatant commands and the Joint Staff to improve planning for overseas military operations. "One of their jobs is to get into war plans before they happen, so we know what the requirements will be," Short says. "Iraq wasn't planned, so we have had to do it on the fly."

\$1.1 billion

DCMA's annual budget, covering oversight of 15,971 contractors.

56%

Reduction of the civilian workforce at DCMA since 1990, a loss of 13,092 employees.

\$752 billion

Value of contracts overseen by DCMA in 1990.

\$980 billion

Value of contracts overseen today.

458,000

Number of contracts managed by DCMA in 1990.

317,000

Number of contracts managed today.

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—MAJ. GEN. DARRYL SCOTT

Managing for Customers

Though DCMA polls its customers to see whether they are pleased with its work, agency chief Scott believes those surveys don't go far enough. He says DCMA should be asking three basic questions: What do you need? How do we know if we are doing that? Will this help meet your larger goals? “We are looking for macro measures from the agency that we can translate into smaller goals to manage for the customer,” he says. For example, DCMA currently asks the Naval Air Systems Command to rate the quality of spare parts purchased under contracts managed by the agency. Under the new approach, DCMA still would focus on quality, but also would ask whether contract support was helping NAVAIR meet its larger goal of reducing weapons repair costs by 20 percent.

Scott also wants to offer contractors better service. The agency cut the time it takes to approve payments to contractors from four days to one and a half using a Web-based system. It also has taken steps to reduce a backlog of contracts that have not

been officially closed out. Closeout permits contractors to discard detailed records they must retain, sometimes for as long as a decade, after a weapon has been delivered. Since 2001, the agency has streamlined closeout and cut by 76 percent the number of contracts that have been awaiting closeout for five years or longer.

Customer relations chief Murphy, who oversees a biennial review of customer satisfaction required by Congress, says the agency has improved noticeably between 2002 and 2004, based on a survey of customers in the military, other government agencies and industry. In 2004, 98 percent said the agency provided important products and services, up from 84 percent in 2002, while 96 percent believed the agency is needed, up from 82 percent in 2002. Only 8 per-

cent of those surveyed in the military services believed they could provide the services offered by DCMA.

Larry Johnson, president of the American Federation of Government Employees Local 2128 in Hurst, Texas, which represents DCMA employees in several Southwestern states, says every new DCMA commander has ideas for reforming the agency. Thus, it's in a “constant state of change and turmoil,” he says. Scott's plan to eliminate the *One Book*, for example, has run up against the fact that many of the agency's policies and processes are required by law. As a result, Scott's initiative has caused “a hell of a lot of confusion” and has been only partially accomplished, Johnson says.

Douglass, meanwhile, says the contractors he represents still generally believe DCMA oversight is overdone. He says a contractor building a military aircraft engine might face more than 50 inspections between designing and fielding. The Federal Aviation Administration, he says, performs only one test before fielding commercial aircraft engines, with the possibility of stiff fines if standards are not met. Defense should adopt a similar streamlined approach, he contends.

Scott acknowledges that the agency still has somewhat rocky relations with contractors. That's part of the reason for his customer-based initiatives. “There are some contractors who have appreciated us as partners in the acquisition process,” he says. “There are other contractors who see DCMA as kind of like acne on a teenager, something that has to be lived with until you outgrow it.”

GE



HARD SELL Filling staffing positions in Iraq has proved especially challenging for DCMA.